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Audited Financial Statements and  
Other Financial Information

Massachusetts Corporation for  
Educational Telecommunications

June 30, 1992

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Audited Financial Statements and Other Financial Information  
MASSACHUSETTS CORPORATION FOR EDUCATIONAL TELECOMMUNICATIONS  
June 30, 1992

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**REPORT OF INDEPENDENT AUDITORS**

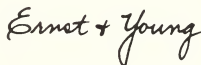
Board of Directors  
Massachusetts Corporation for  
Educational Telecommunications

We have audited the accompanying financial statements of the Massachusetts Corporation for Educational Telecommunications (MCET) as of and for the years ended June 30, 1992 and 1991, as listed in the table of contents. These financial statements are the responsibility of MCET's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCET at June 30, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying additional information, the schedules of project and general and administrative costs for the years ended June 30, 1992 and 1991 are presented for purposes of additional analysis and are not a required part of the financial statements of MCET. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



July 24, 1992



## BALANCE SHEETS

## MASSACHUSETTS CORPORATION FOR EDUCATIONAL TELECOMMUNICATIONS

	June 30	
	1992	1991
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 590,151	\$ 501,482
Accounts receivable--Commonwealth of Massachusetts	825,000	690,000
Accounts receivable--other	136,381	174,621
Prepaid expenses	13,073	5,293
Deposits	22,162	11,019
TOTAL CURRENT ASSETS	1,586,767	1,382,415
PROPERTY AND EQUIPMENT		
Computers	207,843	118,557
Furniture and fixtures	233,570	125,475
Office equipment	86,867	56,965
Technical equipment	1,103,271	659,744
Studio equipment	2,315,387	132,322
Network equipment	288,677	242,552
Leasehold improvements	180,440	4,013
	4,416,055	1,339,628
Less accumulated depreciation and amortization	2,493,139	191,078
	1,922,916	1,148,550
Construction in progress	341,924	135,000
NET PROPERTY AND EQUIPMENT	2,264,840	1,283,550
TOTAL ASSETS	<u>\$3,851,607</u>	<u>\$2,665,965</u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Current maturities of capitalized lease obligations	\$ 1,681	\$ 3,269
Accounts payable	421,086	234,517
Accrued expenses	18,000	18,000
Accrued payroll	48,398	19,407
Accrued compensated absences	138,557	66,870
Payroll taxes and other benefits payable	55,460	30,322
Deferred revenue	182,856	105,000
Deferred restricted support	105,000	
TOTAL CURRENT LIABILITIES	971,038	477,385
LONG-TERM LIABILITIES		
Capitalized lease obligations, net of current portion		1,970
TOTAL LIABILITIES	971,038	479,355
FUND BALANCE	2,880,569	2,186,610
TOTAL LIABILITIES AND FUND BALANCE	<u>\$3,851,607</u>	<u>\$2,665,965</u>

See notes to financial statements.





STATEMENTS OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN FUND BALANCE  
MASSACHUSETTS CORPORATION FOR EDUCATIONAL TELECOMMUNICATIONS

	June 30, 1992				June 30, 1991			
	Telecommunications Fund	Reach for The Stars Fund	Mobile Uplink Fund	Donor-Restricted Fund	Total	Telecommunications Fund	Reach for The Stars Fund	Donor-Restricted Fund
Support and revenue:								
Grant revenue	\$3,300,000	\$6,414,701	\$25,000	\$85,600	\$ 9,825,301	\$2,600,000	\$1,607,628	\$21,086
Program income	369,638				369,638	270,040		270,040
Interest income	43,982				43,982	38,159		38,159
TOTAL SUPPORT AND REVENUE	3,713,620	6,414,701	25,000	85,600	10,238,921	2,908,199	1,607,628	21,086
Expenses:								
Project costs	1,898,528	6,185,862	2,468	85,600	8,172,458	920,761	1,281,092	21,086
General and administrative	1,372,504				1,372,504	1,006,309		1,006,309
	3,271,032	6,185,862	2,468	85,600	9,544,962	1,927,070	1,281,092	21,086
EXCESS OF REVENUE OVER EXPENSES	442,588	228,839	22,532		693,959	981,129	326,536	
Fund balance at beginning of year	1,860,074	326,536			2,186,610	878,945		878,945
FUND BALANCE AT END OF YEAR	\$2,302,662	\$ 555,375	\$22,532	\$ -0-	\$ 2,880,562	\$1,860,074	\$ 326,536	\$ -0-

See notes to financial statements.



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## STATEMENTS OF CASH FLOWS

## MASSACHUSETTS CORPORATION FOR EDUCATIONAL TELECOMMUNICATIONS

	Year Ended June 30	
	1992	1991
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 693,959	\$ 1,307,665
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Depreciation and amortization	2,302,061	147,499
Increase in accounts receivable	(96,760)	(825,371)
Decrease (increase) in merchandise inventory		20,996
Decrease (increase) in prepaid expense	(7,780)	16,697
Decrease (increase) in deposits	(11,143)	13,200
Increase in accounts payable	186,569	144,141
Increase in accrued expenses		7,005
Increase in accrued payroll	28,991	19,407
Increase in accrued compensated absences	71,687	47,825
Increase in payroll taxes and other benefits payable	25,138	27,384
Increase in deferred revenue	77,856	95,125
Increase (decrease) in deferred restricted support	105,000	(1,086)
Cash provided by operating activities	3,375,578	1,020,487
INVESTING ACTIVITIES		
Acquisition of property and equipment	(3,283,351)	(1,328,776)
Cash used for investing activities	(3,283,351)	(1,328,776)
FINANCING ACTIVITIES		
Principal payments on capitalized lease	(3,558)	(2,978)
Cash used for financing activities	(3,558)	(2,978)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	88,669	(311,267)
Cash and cash equivalents at beginning of year	501,482	812,749
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 590,151</u>	<u>\$ 501,482</u>

See notes to financial statements.



MASSACHUSETTS CORPORATION FOR EDUCATIONAL TELECOMMUNICATIONS

NOTE A--ORGANIZATION

The Massachusetts Corporation for Educational Telecommunications (MCET) was formed in December 1982, by the state legislature, under Chapter 560 of the Acts of 1982. MCET's purpose is to establish and operate a statewide telecommunications system which will offer an educational telecommunications network to the Commonwealth of Massachusetts public and private sector. MCET's mission is to improve the quality of education and to make education more effective and information more accessible by using the most advanced communication technologies. MCET is supported through grants from federal and state agencies, contributions, grants, gifts and bequests from the private sector.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting: To ensure observance of limitations and restrictions placed on available resources, the accounts are maintained in accordance with the principles of fund accounting. Those funds restricted as to purpose and use are accounted for separately from unrestricted funds. The assets, liabilities and fund balance of MCET are reported in three self-balancing funds as follows:

- The Telecommunications Fund represents the portion of MCET's expendable funds that is received from State grantor agencies and from other nonrestricted sources and is available for support of MCET's network and programming activities. The Telecommunications Fund also represents MCET's principal operating fund.
- The Reach For The Stars Fund represents the portion of MCET's expendable funds that is received from the Federal Star Schools program and is available for support of a broadcast studio and multi-technology in the schools that are served. MCET is obligated under its grant agreement to match a portion of the costs incurred under this program. A portion of the matching share is included as a cost of the Telecommunications Fund. In-kind contributions from vendors are also included as part of the matching share.
- The Mobile Uplink Fund represents the portion of MCET's expendable funds that is received from the Federal Public Telecommunications program and is available for the construction of a mobile uplink van for broadcasting from remote locations.
- The Donor-Restricted Fund represents funds that are subject to the restrictions of the grantor agency.

Property and Equipment: Property and equipment are stated at cost, or in the case of donated equipment, at fair value as of the date of the donation. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets, or the term of the grant if there is uncertainty about the availability of future funding. Useful lives range from two to ten years.



# NOTES TO FINANCIAL STATEMENTS--CONTINUED

## MASSACHUSETTS CORPORATION FOR EDUCATIONAL TELECOMMUNICATIONS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Income Taxes: MCET, as an instrumentality of the Commonwealth of Massachusetts, is qualified as a tax-exempt organization under Section 115(1) of the Internal Revenue Code and, therefore, the operations are not subject to federal or state income taxes.

Revenue Recognition: Support and revenue in the form of grants and donations are recorded when use of the cash or other donated assets is available to MCET. Donor-restricted funds are deemed to be earned and reported as revenues when MCET has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet expended are reported as restricted deferred revenue. Network access fees are recorded in the period in which those fees become receivable. Annual membership fees are recognized over the period to which the fees relate.

### NOTE C--EMPLOYEE PENSION PLAN

MCET has a defined contribution pension plan. The Plan provides a contribution equal to 10% of each permanent employee's annual salary, for employees who are at least 20 years of age. The contribution is made on a quarterly basis to a SEP/IRA of the employee's choice. Pension expense for the years ended June 30, 1992 and 1991 was \$160,397 and \$63,137, respectively.

### NOTE D--LEASES

The Company leases equipment which will become its property upon completion of the lease term in 1992. This equipment is included in office equipment for financial reporting purposes. Certain other equipment, office space and a studio are leased under noncancellable operating leases expiring in various years through 1995. The office space and studio leases require the Company to pay all maintenance costs and property taxes allocable to the leased premises as additional rent.

Future minimum payments, by year and in the aggregate, under the capital lease and operating leases with initial or remaining terms of one year or more consisted of the following at June 30, 1992:

	<u>Capital Lease</u>	<u>Operating Leases</u>
1993	\$1,757	\$258,385
1994		230,221
1995		159,565
1996		158,737
1997 and thereafter		69,661
Total minimum lease payments	1,757	<u>\$876,569</u>
Amounts representing interest	76	
PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS	<u>\$1,681</u>	





NOTES TO FINANCIAL STATEMENTS--CONTINUED

MASSACHUSETTS CORPORATION FOR EDUCATIONAL TELECOMMUNICATIONS

NOTE D--LEASES--CONTINUED

Rental expense under noncancellable operating leases as of June 30, 1992 and 1991 was \$323,890 and \$136,400, respectively.

NOTE E--RESTRICTED GRANTS

During 1992, MCET received grants of \$191,600 from local corporations restricted for a variety of specific purposes. \$85,600 of this amount was expended in 1992, while the remaining \$105,000 has been recorded as deferred restricted support in the accompanying balance sheet.

NOTE F--CASH

At June 30, 1992, the carrying amount of MCET's deposits was \$74,982 for book purposes and \$260,482 per the bank, the difference resulting from unrepresented checks. These deposits are categorized below to give an indication of the level of risk assumed by MCET at year end. Category 1 includes bank balances that are insured by federal depository insurance. Category 2 includes uninsured bank balances.

	<u>Category 1</u>	<u>Category 2</u>
Cash	\$100,000	\$160,482

At June 30, 1992, the carrying amount of MCET's deposits in the Massachusetts Municipal Depository Trust was \$515,169. These deposits are fully collateralized.

NOTE G--RELATED PARTIES

Certain directors of MCET are officers and directors of entities with which MCET does business. These directors abstain from voting on MCET matters related to their respective affiliated entities.



## OTHER FINANCIAL INFORMATION



SCHEDULES OF PROJECT AND GENERAL AND ADMINISTRATIVE COSTS

MASSACHUSETTS CORPORATION FOR EDUCATIONAL TELECOMMUNICATIONS

	Year Ended June 30, 1992			Year Ended June 30, 1991		
	Project Costs	General and Administrative Costs	Total	Project Costs	General and Administrative Costs	Total
Accounting	\$ 22,500	\$ 4,752	\$ 27,252		\$ 18,000	\$ 18,000
Advertising and promotions	10,204	12,586	22,790	\$ 1,303	10,046	11,349
Auto expense	8,501	10,569	19,070	10,833	4,805	15,638
Classroom materials	235,746	740	236,486	180,209	391	180,600
Clerical	2,129	25,690	27,819		7,078	7,078
Consulting	9,038	41,598	50,636	227,883	103,307	331,190
Depreciation and amortization	2,269,166	32,895	2,302,061	121,304	26,195	147,499
Electric	20,841	3,957	24,798	2,499	3,731	6,230
Employee and teacher training	142,494	3,616	146,110	29,193	3,814	33,007
Software	6,279	8,219	14,498	1,146	4,010	5,156
Equipment leasing	7,997	2,489	10,486	4,758	4,532	9,290
Insurance	95,557	87,322	182,879	18,897	82,867	101,764
Interest expense		657	657		1,239	1,239
Legal fees	24,683	17,010	41,693	8,889	22,576	31,465
Legislative services		35,613	35,613		11,065	15,099
Meetings	4,821	20,305	25,126	4,034	2,596	3,445
Membership dues	930	2,495	3,425	849		849
Miscellaneous		689	689	171	248	419
Moving expense					1,653	1,653
Office and studio supplies	56,108	20,923	77,031	25,662	13,623	39,285
Payroll taxes	30,887	9,860	40,747	9,222	5,694	14,916
Pension	107,412	52,985	160,397	25,179	37,958	63,137
Periodicals and books	807	7,053	7,860	827	5,037	5,864
Postage and printing	106,682	135,847	242,529	23,214	62,995	86,209
Rent	206,896	102,265	309,161	79,801	56,598	136,399
Repairs and maintenance	1,486	1,482	2,968	2,538	2,798	5,336
Salaries and wages	1,214,018	663,261	1,877,279	436,461	480,903	915,364
Seminars and trade shows	2,154	14,574	16,728	2,026	4,520	6,546
Subcontracting	1,930,949		1,930,949	627,691	2,967	630,658
Telephone	28,978		47,630	18,347	14,124	32,471
Transmission and programming expense	1,585,649		1,585,649	345,992		345,992
Travel	39,546	34,400	73,946	14,925	10,959	25,884
	8,172,458	1,372,504	9,544,962	2,221,853	1,006,309	3,228,162
NCET Development Trust Consulting				1,086		1,086
TOTAL	\$8,172,458	\$1,372,504	\$9,544,962	\$2,222,939	\$1,006,309	\$3,229,248





